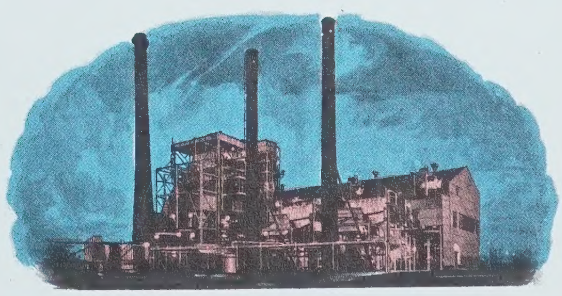
Canadian International Power Company Limited



ANNUAL REPORT
31ST DECEMBER
1966

Photo by L. R. MacLean

The modern buildings lining one of the principal avenues in Barquisimeto, Venezuela, are supplied with dependable electric power by C.A. Energía Eléctrica de Barquisimeto personified by "Bimba Kilovatio".

Canadian
International
Power
Company
Limited

Annual Report 1966

1966 Highlights

	1966	1965
Consolidated Net Income	$11,378,164	$10,059,893
Preferred Stock Dividends	$ 331,961	$ 1,157,433
Earnings per Common Share	$ 4.77	$ 3.87
Common Stock Dividends	$ 3,174,216	$ 2,116,455
Electric Sales in kilowatt-hours	1,361,225,300	1,177,508,800
Number of Electric Customers	342,628	317,580
Capital and Replacement Expenditures	$16,829,398	$14,678,271
Installed and Purchased Generating Capacity (kilowatts)	505,867	395,343

Canadian International Power Company Limited

Board of Directors

*Frederic J. Ahern, *New York*
Vice-President, The United Corporation

E. Ryckman Alexander, *Montreal*
Vice-President, Finance,
Sun Life Assurance Company of Canada

Leo F. Daley, *Boston*
Partner, Harris, Upham & Co.

William R. Eakin, *Montreal*
Vice-President, McLean, Kennedy Limited

*William M. Hickey, *New York*
President, The United Corporation

Hon. Robert C. Hill, *Littleton, N.H.*
Director, United Fruit Company

John R. Hughes, *Montreal*
Chairman, Royal Securities Corporation Limited

*Frederick Krug, *New York*
Chairman of the Executive Committee,
Canadian International Power Company Limited

Alejandro J. Lara, *Caracas, Venezuela*
President, Fiveca, S.A.

*Paul W. Raymer, *Asheville, N.C.*
Director,
Canadian International Power Company Limited

Richard Joyce Smith, *New York*
Partner,
Whitman, Ransom & Coulson, Attorneys at Law,
Co-Trustee, New York, New Haven and
Hartford Railroad Company

*Morley G. Taylor, *Montreal*
President,
Canadian International Power Company Limited

*Members of the Executive Committee.

Officers

William M. Hickey, *Chairman of the Board*

Frederick Krug, *Chairman of the Executive Committee*

Morley G. Taylor, *President*

John Kazakoff, *Senior Vice-President*

Eric H. Campbell, *Vice-President - Finance and Secretary-Treasurer*

Lawrence M. Howe, *Vice-President - Operations*

H. Robert Mullan, *Assistant Secretary-Treasurer*

Office

276 St. James Street West, Montreal, P.Q.

Transfer Agents

Montreal Trust Company

1695 Hollis Street, Halifax, N.S.

Place Ville Marie, Montreal, P.Q.

15 King Street W., Toronto, Ontario

Notre Dame at Albert Street, Winnipeg, Man.

8th Avenue at 3rd Street, Calgary, Alta.

466 Howe Street, Vancouver, B.C.

First National City Bank

55 Wall Street, New York, N.Y.

Registrars

Montreal Trust Company

The Chase Manhattan Bank

1 Chase Manhattan Plaza, New York, N.Y.

Executives of Hemisphere Management Services Limited

Morley G. Taylor (1927), *President*
John Kazakoff (1938), *Vice-President*
Lawrence M. Howe (1941), *Vice-President*
Eric H. Campbell (1936), *Secretary-Treasurer*
H. Robert Mullan (1949), *Assistant Secretary-Treasurer*
G. Bruce Fairgrieve (1946), *Operations Co-ordinator*
Bruce F. Junkin (1947), *Operations Co-ordinator*
Andrew B. Biggar (1948), *Transmission and Distribution Co-ordinator*
H. W. Darryle Armstrong (1952), *Rates and Valuation Co-ordinator*
Franklin P. Krug (1955), *Personnel Co-ordinator*
Henning J. Porsaa (1957), *Budget Co-ordinator*
C. D. G. Pearson (1960), *Public Relations Co-ordinator*
Alan B. Creaghan (1965), *Legal Co-ordinator*

Executives of Operating Companies

Barbados	John H. Nelson (1955)	*General Manager*
Bolivia	Archibald F. J. Sears (1942)	*General Manager*
El Salvador	David C. Mitchell (1953)	*General Manager*
Mexico	Ramón Noble Jr. (1923)	*General Manager*
Venezuela	Alexander E. Wilcox (1950)	*President - Operating Companies and General Manager, Maracaibo*
	Jean van Tongelen (1964)	*General Manager, Barquisimeto*

Dates indicate date of first employment with subsidiary companies.

Engineering Consultants

Montreal Engineering Company Limited

Auditors

Price Waterhouse & Co.

Canadian
International
Power
Company
Limited

Record of Ten Years
(1957 to 1966 Incl.)

New generating, transmission and distribution facilities were installed at a cost of $78,682,001 to supply additional service, and equipment was replaced at a cost of $6,854,998, making total expenditures on new and enlarged facilities of	$85,536,999
Additional minority shares of International Power have been purchased for cash, bringing Canadian International Power holdings to 99.56% at a cost of	1,545,479
Shares of 6% Preferred Stock, 1956 Series, purchased to December 31, 1965, at a cost of $7,424,127 and balance redeemed on January 5, 1966, for a total cost of	26,183,050
Issue on January 4, 1966, of 350,000 Shares 5.2% Preferred Stock of a par value of Can. $20 per share, less issue expenses, less shares purchased in 1966	(5,835,261)
Investments in notes and stocks of Fiveca S.A. less partial repayments of notes	1,659,205
Investment in shares of Hemisphere Management Services Limited, a wholly-owned company established to provide management services to the C.I.P. group	46,355
Cash dividends have been paid on the Preferred and Common Stocks of Canadian International Power in total amount of	24,794,995
Total	$133,930,822

	1966	1956
Cash and Bank Deposit Receipts	$17,833,224	$10,704,419
Consolidated Operating Revenue	36,535,152	15,476,499
Earnings — for Common Stock	11,046,203	4,653,000*
— per share	$4.77	$2.04*

*Pro-forma, based on initial capitalization of Canadian International Power ten years ago.

Three new electric properties were acquired, namely, The Barbados Electric Company and the Perijá and Carora Companies in Venezuela. The Demerara Electric Company in British Guiana was sold and the operating properties of the Monterey Railway, Light & Power Company were sold.

Letter to Shareholders

To the Shareholders:

We take pleasure in reporting on the operations of the Company during the year 1966. Growth has continued at a more rapid pace than last year, reflecting the economic progress and stability in the countries in which the subsidiary companies are doing business.

Consolidated earnings on the common stock for 1966 amounted to $11,046,203 or $4.77 per share compared to $8,902,460 or $3.87 per share in 1965, a 24.1% increase.

Kilowatt-hour sales of the operating subsidiaries increased in all countries; the increase in 1966 over 1965 was 15.6%.

In the first quarter of 1966, the dividend on the common stock was increased to 35¢ Canadian per share from the 25¢ Canadian paid in the preceding quarters. Starting with the second quarter, a quarterly dividend of 35¢ United States currency, per share, was fixed. Again, last February, a quarterly dividend of 40¢ United States currency per share was declared payable April 3, 1967, representing a dividend at an annual rate of U.S. $1.60 per share on the common stock.

It was decided that in view of the progress of the Company, it would be of benefit to shareholders to have the common stock listed on an Exchange in the United States, in addition to the listing enjoyed with the Montreal Stock Exchange. This required the filing of a Registration Statement under the United States Securities Exchange Act of 1934, and on January 24, 1967, the common stock was listed on the American Stock Exchange under the symbol of "CIV".

The Company was invited by the New York Society of Security Analysts, Inc., to make a presentation before that group on March 22, 1967. This gave your officers an opportunity to further acquaint the financial community with the Company's past record and future prospects.

Following the Company's policy of increasing ownership in subsidiaries by local investors, both the Barquisimeto (Venezuela) and Barbados Companies sold treasury stock in 1966 with gratifying results. At the present time, an additional offering is being made in the Venezuelan market of 100,000 treasury shares at par value of 100 bolivars each (equivalent to $22.22 per share) of C.A. Energía Eléctrica de Venezuela, the Maracaibo subsidiary.

Expansion of plant and equipment continued in 1966 to meet the increasing business, and during the year capital expenditures were almost $17,000,000 with an expenditure in excess of $15,000,000 planned for 1967.

For detailed information on the year's operations, we refer you to the pages that follow.

Mr. William R. Eakin, who was elected a Director at the Annual General Meeting held last May 1966, has been a valuable addition to the Board. Well known in Montreal shipping and business circles, Mr. Eakin is Vice-President of McLean, Kennedy Limited, President of the Shipping Federation of Canada and holds directorships in several other companies.

You will be requested, at a Special General Meeting and the Annual General Meeting in May, to approve an increase of one in the number of Directors on the Board and to elect as a Director, Mr. John Kazakoff, Senior Vice-President, who has been with the group continuously since 1938 and rendered most valuable services.

In April, 1966, Mr. Kazakoff, who has served the Company both at the operating end and at home office, was named Senior Vice-President. Mr. E. H. Campbell was elected Vice-President — Finance and continued as Secretary-Treasurer. In addition to his other duties, Mr. Campbell is responsible for executive direction of the properties in El Salvador. Also, Mr. Lawrence M. Howe, who has been with the Company since 1941 and most recently was in charge of Venezuelan operations, was named Vice-President — Operations with headquarters in Montreal.

Mr. Ramón Noble, Jr., General Manager and Director of the Monterey Company, retired on December 31, 1966 after 43 years of service. On April 15 of this year, Mr. L. R. MacLean, General Manager of the Barquisimeto Company also retired after 32 years of service. The Board of Directors recognizes their loyal and valued services and wishes them a long well-earned retirement.

In May 1966, Mr. Alexander E. Wilcox was appointed President of all operating Companies in Venezuela and continues as General Manager of the Maracaibo Company. Mr. Jean van Tongelen has been appointed General Manager of the Barquisimeto Company to replace Mr. MacLean.

We express our sincere appreciation to the employees in the operating companies and in head office for their loyalty and fine performance.

For the Board of Directors,

Wm. M. Hickey, Chairman.	M. G. Taylor, President.

Montreal, April 21, 1967.

1. "Welcome to the Miranda District, Electrified by Bimba Kilovatio, C.A. Energía Eléctrica de Venezuela" which advises the populace that our Company now supplies service to this area on the eastern shore of Lake Maracaibo.

2. Bolivian workers are applying lubricant in preparation for pulling underground cable in the City of La Paz.

3. Barbados school children are fascinated by linesmen using modern hydraulic lift basket to bring economic electricity to a new customer.

1

Photo by L. M. Howe

2

3

Earnings, Sales and Customers

All dollar figures in this Annual Report are now in terms of United States dollars unless otherwise stated. Formerly, the Financial Statements were a combination of United States and Canadian dollars.

Consolidated earnings on the common stock for 1966 amounted to \$11,046,203 or \$4.77 per share compared to \$8,902,460 or \$3.87 per share in 1965.

The substantial increase in earnings reflects the growth taking place in the countries in which the subsidiaries operate. It also reflects an increase in the electric rates in La Paz, Bolivia.

Operating revenue in 1966 was \$36,535,152 compared to \$31,358,478 in 1965, an increase of 16.5%.

Kilowatt-hour sales increased 15.6% and at December 31, 1966, the number of customers connected was 342,628, representing an increase of 25,048 or 7.9% over 1965.

Charts and Operating Data on pages 22-23 indicate these increases.

Dividends

The regular quarterly dividends on the 5.2% preferred shares of Canadian International Power outstanding in 1966 amounted to \$331,961. During 1966, 7,542 shares of preferred stock were purchased for retirement through the preferred stock purchase fund at a cost of Can. \$135,282.

On the common stock, the dividend for the first quarter was at the rate of 35¢ Canadian per share as against 25¢ Canadian per share in preceding quarters. In the following quarters of 1966, the dividend was at the increased rate of 35¢ United States currency per share. On February 10, 1967, a quarterly dividend at an annual rate of \$1.60 per share was declared payable April 3, 1967 on the common stock.

Financing

In December 1966, a further 100,000 shares of the common stock of The Barbados Light and Power Company were sold from the Company's treasury to investors in Barbados at par value of E.C. \$5 each, equivalent to \$2.90. As a result, 16.8% of the stock of the Barbados subsidiary is now owned by 1,015 stockholders in Barbados.

During the year, the Barquisimeto subsidiary sold at par of 100 bolivars each (equivalent to \$22.22), a total of 33,605 shares mainly to the public in and around the city of Barquisimeto. Local investor participation now stands at 13.6% of the stock of this subsidiary, owned by 686 shareholders.

On April 3, 1967, an offering of 100,000 shares of the Maracaibo Company was made on the Venezuelan market. The shares are to be issued at par value of 100 bolivars each, equivalent to \$22.22.

American Stock Exchange Listing

On January 24, 1967, the common stock of the Company was listed on the American Stock Exchange in New York, under the symbol of "CIV", following registration with the Securities and Exchange Commission, under the United States Securities Exchange Act of 1934. It is the opinion of the Management that this listing will be of advantage to the shareholders generally. The common stock continues to be listed on the Montreal Stock Exchange, where the symbol is "CIP".

United States Interest Equalization Tax

The U.S. Internal Revenue Service has ruled that the Company is a less-developed country corporation for purposes of the Interest Equalization Tax for the calendar year 1967. Therefore, no Interest Equalization Tax will be imposed for any acquisition of stock of the Company made during 1967 and on or before March 31, 1968. The Company has received similar rulings for the preceding years.

Public Relations

For some time now, programs of public relations have received special emphasis, which it is felt has been reflected by an improved public acceptance of the various subsidiaries. The improvement is measured by public opinion surveys carried out periodically by independent research organizations. Such surveys are again being undertaken in all the operating territories in 1967.

Modern 138,000 volt switching structure in Maracaibo, Venezuela, helps to ensure continuity of service to residential and industrial customers of C.A. Energía Eléctrica de Venezuela.

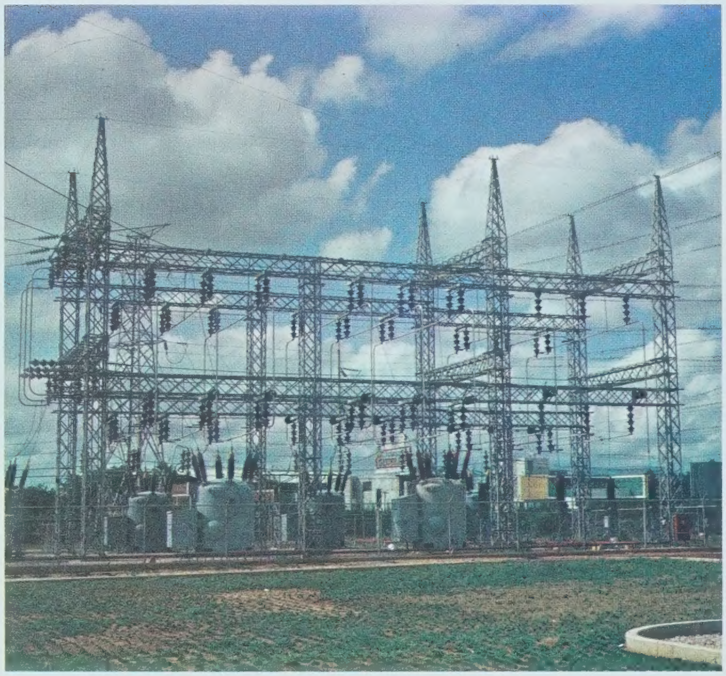


Photo by A. E. Houghton

Venezuela

Manufacturing, agriculture and the electric industry enjoyed another good year, the indices in these industries showing substantial increases. The Gross National Product is estimated to have increased by 4.3% despite a reduction in the annual production of petroleum of 2.9%. International reserves are at the high level of approximately $800 millions. The strength of the Venezuelan monetary system is further evidenced by the acceptance of the bolivar by the International Monetary Fund as an international medium of payment, announced by the Fund on September 25, 1966. An important step in Venezuela's foreign trade relations was its decision in July to join the Latin American Free Trade Area (LAFTA).

During the year the Venezuelan Government reached an agreement with the petroleum companies concerning outstanding tax claims and some progress was made toward the definition of the service contracts which the Administration proposes to introduce for future development of the oil industry. The prospects for 1967 are therefore good and a productive year is anticipated for the national economy as well as for Canadian International Power subsidiaries.

A new income tax law, effective January 1, 1967, received Congressional approval late last year. While the level of corporate taxes remains unchanged and an increased income tax credit is granted in respect to capital expenditures, the new law introduces a dividend tax for the first time. It is estimated that, resulting from these new fiscal measures, the taxes payable by the Company's Venezuelan subsidiaries and their investors, will increase by a little over 7% on average in the next five years.

Kilowatt-hour sales increased in the Maracaibo area by 11.8%, even though an unusually wet season adversely affected the energy consumption for air conditioning. In Barquisimeto a sales increase of 19.3% was reached, with only a part of this being accounted for by unusual sales to a Government entity in a neighbouring State.

The operating Company in the Perijá District continues to take on new load and showed a 46.4% increase in kilowatt-hour sales in 1966, reflecting the continued advance in the electrification of this rural zone.

One of the most encouraging features of the development of Maracaibo and Barquisimeto lies in the efforts being made by both public and private investors to meet the shortage of adequate housing. Construction of many housing developments of medium and lower categories will continue to be a significant factor in our Companies' load growth.

During the year negotiations were successfully carried out for the acquisition of the generating equipment and transmission systems of Compañía Shell de Venezuela in the area west of Maracaibo. The purchase includes 10,000 kilowatts of serviceable gas turbines, some 130 miles of transmission lines at 34,500 and 6,900 volts, together with the associated substations. The equipment is basically used for supplying electric power to the Shell oil field installations which are currently producing approximately 60,000 barrels of oil per day. This represents a high load factor customer whose demand is in the neighbourhood of 8,000 kilowatts.

Arrangements were completed for the merger of the new operation in the Colón District within the Maracaibo Company's corporate structure. The line construction program in this fine agricultural area south of Maracaibo is proceeding and the effect of the expanding service should be evident in the sales for the coming year.

Although tight money conditions prevailed in the latter part of the year, profits of Fiveca S.A. for the year were the highest since it came into existence 10 years ago as a real

Local girls at work in an electric lamp factory whose electric power requirements are provided by the Compañia de Alumbrado Eléctrico de San Salvador.

estate financing and construction company. In addition to a cash dividend of 5.25 bolivars per share, extraordinary dividends for a total of 50 bolivars per share were declared and applied in paying up 20% of the uncalled share capital, thereby reducing the uncalled share capital to 10%. For 1967, dividends at a quarterly rate of 2 bolivars per share have been declared. Through a subsidiary, 21.6% of the share capital of Fiveca S.A. is owned by Canadian International Power.

El Salvador

Economic activity was well maintained throughout the year and it is estimated that the Gross National Product increased by 5%. Coffee prices were lower but the new crop has been stated to be abundant and good. Practically all the surplus of the 1965 crop of coffee was shipped. The cotton crop, although smaller, showed a substantial improvement in quality, compared with the poor crops of the last year or two. There is still a surplus of sugar which has been relieved by a further increase in the quota for shipment to the United States.

New industries continue to be established in El Salvador, giving rise to an increase in industrial output. Inter-regional trade in the Central American Common Market shows further expansion. At the end of last year the internal tariffs on 98% of the products traded had been eliminated; however, the remaining 2% still accounts for 20% of total trade. The Republic of Panama has expressed the intention of joining the Common Market and Mexico is interested in being associated with it. The Government is devoting considerable attention to promoting greater tourism in El Salvador. Legitimate foreign exchange requirements are acquired promptly and monetary reserves are maintained at high levels.

On August 26, 1966, the companies signed agreements with the Government of El Salvador, by which the 1936 Concession Contracts are confirmed and a rate of return of 8%, after all taxes, is allowed on a value rate base.

Kilowatt-hour sales increased 11.8% in the year. The special rural electrification program commenced in 1964 was virtually finished at the end of 1966, and resulted in the program, extending service to 63 new communities with 2,826 customers. Requests have been received from other cities for the installation of modern street lighting, following the example of the capital city of San Salvador, where the new street lighting system was completed early in 1966.

With a view to maintaining high standards in customer billing and accounting and statistical records, in the face of the rapidly increasing number of customers (76,369 at December 31, 1966), an IBM 1401 Computer was placed in service in the San Salvador office. Maracaibo has had IBM data processing equipment for many years and the subsidiaries in both countries have ordered the more advanced IBM 360 Computers, which will permit efficient handling of further growth.

Bolivia

On August 6, 1966, the newly-elected Government under President General René Barrientos Ortuño took office.

Bolivia continues as a major source of the world's tin supply and recently enacted mining and investment codes, are expected to encourage the production of tin and other metals by private enterprise. Corporación Minera de Bolivia, the Government's mining entity, has carried out a three-year modernization program which should result in considerable improvement in efficiency. The improved outlook for tin together with further discoveries of oil and gas should enhance the revenues of the country. Exportation of Bolivian crude oil to the U.S.A. commenced in September of 1966 with a reported rate of flow of 15,000 barrels per day through a 660 mile pipeline from the oil fields to the Pacific Coast. The International Monetary Fund has reported that Bolivia's economy was growing at a satisfactory rate. The real increase in the Gross National Product in 1966 was 6.4%.

Effective August 1, increased rates were authorized to the La Paz Division of the Bolivian Power Company, which are designed to give a rate of return of 9% per annum on the rate base as stipulated in the agreements between the Government of Bolivia and Bolivian Power Company of July 24, 1964.

Kilowatt-hour sales in the year increased by 17.4% in La Paz and 19.0% in the Oruro Division. Net income was $2,345,767 as compared to $1,674,193 in 1965. The improved sales and revenue reflect the operation of the new generating and distribution facilities, the implementation of new electric tariffs in La Paz, and appreciably better than average water flows in the Oruro Division.

The sailing ships moored in the old harbour contrast with modern streets and cars in this tourist mecca of Bridgetown, Barbados.

In accordance with the provisions of the 9% $100 par Preferred Stock, quarterly dividends were commenced on June 30, 1966, at the rate of $2.25 per share. A dividend of $10.00 per share was declared and paid on the common stock of Bolivian Power Company. From these dividends, a 20% Bolivian tax is withheld. Canadian International Power Company owns 99.2% of the above stocks.

Barbados

An historic event was the granting of Independence to Barbados on November 30, 1966. Barbados remains within the sterling area and the Commonwealth. Also it has joined with Guyana and Antigua in the Caribbean Free Trade Association. The British West Indies dollar has been replaced by the East Caribbean dollar (E.C.$) of the same value, equivalent to U.S. $0.58 at December 31, 1966.

The economy of the Island continued to advance, paced by the dynamically growing tourist industry. Over the last 5 years, the number of visitors arriving in Barbados has increased annually by an average of 18%. Under a Government Development Plan, new light manufacturing industries are continuing to be established and the bulk of the sugar crop has an assured market at preferential prices in Great Britain and the United States. Gross National Product is estimated to have increased 4.5% in 1966, the same rate as in 1965.

In such a setting, the past year was one of continuing growth for our Barbados subsidiary with kilowatt-hour sales increasing 17.6% over the previous year. New more promotional rate schedules were approved by the Public Utilities Board and put into force on April 1, 1966.

The Public Utilities Board agreed to the incorporation into the books of the Company the appraised Fixed Capital Assets. This resulted in an increase of E.C.$9,088,843 in the Capital Assets and E.C. $1,282,981 in the provision for depreciation. The appraisal was carried out in 1965 by International Middle West Service Company of Chicago to determine reproduction-cost-new less observed depreciation.

Capital Expenditures All Properties

Capital expenditures in 1966 amounted to $16,829,398 compared to $14,678,271 in 1965. For 1967 a capital expenditure program of $15,229,000 has been approved, which provides for the continuing high rate of growth and the provision of the most modern and efficient equipment, designed to increase automation and improve productivity in all the companies.

Venezuela

Based upon engineering studies and considering the load growth in Maracaibo and surrounding area, it has been decided to commission a 15,000 kilowatt gas turbine in each of the four years commencing 1968. The preliminary work will be started in 1967 for the installation of the first unit. Two 1,700 kilowatt diesel generating units will be installed in 1967 in the Colón District. Some expenditure will be required for equipment to interconnect the generation and transmission systems in La Concepción District to insure electric service for the operations of Shell in this area.

In Barquisimeto, a second 14,400 kilowatt gas turbine was commissioned on September 15, 1966. A modernized system of protective switching to give better control of the Company's transmission circuits is to be installed in 1967 and an increase in substation capacity and plant improvement is contemplated.

El Salvador

A mobile 6,667 kva substation was acquired by the San Salvador subsidiary in 1966 to ensure greater reliability of service. Should a conventional substation suffer a breakdown, the mobile unit can quickly be moved to the scene as a replacement. To maintain the street lighting services under the new Municipal agreements, the El Salvador subsidiaries are now using trucks equipped with hydraulic lift baskets which enable the maintenance operators to be lifted to the lamps quickly and effortlessly.

Bolivia

As advised in the 1965 Annual Report, Stage I of the Chururaqui plant was placed in commercial operation on January 29, 1966, to serve the city of La Paz, Bolivia. It was officially inaugurated by the then President of Bolivia, General Alfredo Ovando Candia, on March 12, 1966. Stage II was completed and placed in commercial service in November, 1966. Its official inauguration is planned for April 1967, at the termination of the rainy season. The two stages combined as constructed add 26,100 kilowatts to the system capability. In anticipation of continued growth in La Paz, development of storage on the Tiquimani River and diversion of its waters to the Zongo Valley are continuing. Construction of the 25,000 kilowatt Harca hydro-electric plant and expansion of the transmission and distribution facilities are also being carried out. In the Oruro Division, an expansion of the transmission system has been carried out to interconnect that system with the facilities of the Government-owned Empresa Nacional de Electricidad (ENDE) to permit electric energy to be delivered to the Oruro system of Bolivian Power.

Barbados

Two new diesel engines of 2,300 kilowatt capacity each arrived at year-end in Barbados and their installation at the new Spring Garden site has been completed. Three additional similar units have been purchased and will be commissioned during the third quarter of 1967. All of these units were financed through the manufacturer under favourable terms and conditions. Also during the year, service was extended to many new areas which previously had not been served, thus bringing the day close when every corner of the Island will have electric service available to it.

Mexico

In respect to the sale price of the physical assets of Monterey Railway, Light & Power Company, maturing notes were paid on due date by Nacional Financiera S.A., an agency of the Government of Mexico.

To date, $2,609,099 has been received on account of principal. In conformity with the sale agreement, $1,809,099 of the payments received thus far together with payments of principal to be received over the next 10 years, are required to be reinvested in Mexico.

The interest portion of the payments received on the notes, which is not required to be reinvested in Mexico, was used to pay interest and principal on obligations of the Monterey Company, which are held by International Power Company Limited.

In 1966, an investment was made in Compañía Fundidora de Fierro y Acero de Monterrey, S.A., the second largest steel producer in Mexico. 12,834 shares of common stock were purchased for $156,660 and also $360,000 principal amount of 7% Convertible Debentures, 1984, were bought for $351,000.

Also an investment was made in $200,000 principal amount of Government of Mexico 7¼% tax-free External Sinking Fund Bonds, due 1981, which were purchased for $193,000.

While further long-term investments are being sought, approximately $730,000 has been reinvested in short-term obligations in Mexico.

The office of the subsidiary in Monterrey was closed on December 31, 1966 after being in existence since 1907, and an office was opened in New York.

Canadian
International
Power
Company
Limited
and Subsidiary Companies

Consolidated Balance Sheet

(expressed in

Assets

	1966	1965
Property, Plant and Equipment		
Land, buildings, plant and equipment (Note 3)	$168,810,858	$148,233,486
Investments		
Notes receivable (Note 4)	7,169,069	7,552,892
Investment in shares of Fiveca, S.A., at cost (Note 11)	1,073,333	833,333
Bonds, at cost	1,527,110	1,228,080
Investment in subsidiary company, not consolidated, at cost (Note 1)	—	65,280
Other investments, at cost	174,143	20,868
	9,943,655	9,700,453
Long Term Accounts Receivable (Note 5)	1,056,697	1,343,158
Current Assets		
Cash	1,679,341	1,520,636
U.S. and Canadian bank term deposits	15,574,840	22,250,000
Other term deposits	579,043	821,842
Accounts receivable	6,880,977	6,314,224
Materials and supplies, at cost	5,604,830	5,370,739
Prepaid expenses	310,812	150,162
	30,629,843	36,427,603
Deferred Charges (Note 6)	670,023	287,576
	$211,111,076	$195,992,276

Approved on behalf of the Board:

Wm. M. Hickey, Director.
M. G. Taylor, Director.

as at December 31, 1966
United States Currency)

Liabilities

	1966	1965
Shareholders' Equity		
Capital Stock (Note 8)		
Preferred stock	$ 6,378,031	$ 20,192,850
Common Stock	17,577,518	17,343,504
Surplus (Note 9)		
Capital surplus	—	832,050
Earned surplus	90,703,991	80,827,447
Earned surplus segregated for legal reserve	1,800,563	1,397,250
Appraisal surplus (Note 3)	20,201,429	16,434,449
	136,661,532	137,027,550
Minority Interest in Subsidiary Companies	6,423,164	4,317,726
Long Term Liabilities (Note 7)	7,296,031	4,020,856
Current Liabilities		
Bank loans	9,495,983	6,964,525
Accounts payable	2,823,040	2,773,608
Long term liabilities, due within one year	1,637,098	279,332
Customers' deposits, including interest thereon	724,390	634,824
Income taxes payable	7,840,987	5,449,968
Dividends payable	858,662	558,087
	23,380,160	16,660,344
Accumulated Depreciation and Other Provisions		
Accumulated provision for depreciation and renewals	35,031,061	30,933,193
Provision for contingencies	858,414	1,647,228
Customers contributions for extensions	1,460,714	1,385,379
	37,350,189	33,965,800
	$211,111,076	$195,992,276

Canadian
International
Power
Company
Limited
and Subsidiary Companies

Consolidated Statement of Income and Expenditure

for the year ended December 31, 1966
(expressed in United States Currency)

	1966	1965
Operating revenue	$36,535,152	$31,358,478
Operating revenue deductions:		
Operation and maintenance expenses	16,184,760	14,491,523
Taxes – Income	4,355,415	3,666,113
– Other	1,061,186	758,637
Provision for depreciation and renewals	4,177,703	3,672,582
	25,779,064	22,588,855
Operating income	10,756,088	8,769,623
Investment income	1,556,085	1,635,125
Gross income	12,312,173	10,404,748
Income deductions:		
Interest expense – Long term debt	290,159	94,363
– Other	640,707	380,252
Interest charged to construction – Credit	(504,804)	(438,157)
Minority interest	507,947	308,397
	934,009	344,855
Net income for year	$11,378,164	$10,059,893

Consolidated Statement of Earned Surplus

for the year ended December 31, 1966
(expressed in United States Currency)

Balance at beginning of year		$82,418,161
Deduct:		
Exchange adjustment required to convert accounts which were previously expressed in Canadian currency to United States currency		1,590,714
		80,827,447
Add:		
Amount transferred from provision for contingencies	$ 682,140	
Excess of equities in net assets over cost of shares acquired during the year of subsidiary companies, and prior years' adjustments	124,796	
Amount transferred from capital surplus equivalent to the par value of preferred shares purchased and subsequently cancelled under supplementary letters patent	832,050	
Discount and expenses on preferred shares purchased during year	14,461	
Exchange profit on redemption of preferred shares	1,433,927	
Net income for year	11,378,164	14,465,538
		95,292,985
Deduct:		
Excess of equity in net assets over par value of shares issued by subsidiary companies during year	104,957	
Amount segregated as legal reserve for the year in the accounts of subsidiary companies	403,313	
Commission and expenses pertaining to the issue of shares	574,547	1,082,817
		94,210,168
Dividends – Preferred shares	331,961	
– Common shares	3,174,216	3,506,177
Balance at end of year		$90,703,991

Consolidated Statement of Capital Surplus

for the year ended December 31, 1966
(expressed in United States Currency)

Balance at beginning of year	$ 832,050
Deduct:	
Amount transferred to earned surplus equivalent to the par value of the preferred shares, 1956 series, purchased and subsequently cancelled under supplementary letters patent	832,050
Balance at end of year	—

Consolidated Statement of Earned Surplus Segregated for Legal Reserve

for the year ended December 31, 1966
(expressed in United States Currency)

Balance at beginning of year	$1,397,250
Amount segregated for the year	403,313
Balance at end of year	$1,800,563

Consolidated Statement of Source and Application of Funds
for the year ended December 31, 1966
(expressed in United States Currency)

Source of Funds:		
Net income for the year	$11,378,164	
Provision for depreciation and renewals	4,177,703	
Interest charged to construction (credit)	(504,804)	
Minority interest	507,947	
Funds from operations		$15,559,010
Proceeds from issue of common shares	234,014	
Proceeds from issue of 5.2% preferred shares	5,960,049	
Proceeds from issue of common shares by subsidiary companies	1,036,493	
		7,230,556
Long term liabilities — increase		3,275,175
Long term accounts receivable — decrease		286,461
Customers contributions		75,335
Other		8,721
Decrease in working capital		12,517,576
		$38,952,834
Application of Funds:		
Redemption of 6% preferred shares		$18,758,923
Additions to property, plant and equipment	$16,829,398	
Proceeds from disposals and items not requiring an outlay of funds	1,224,734	
		15,604,664
Deferred charges—increase		382,447
Purchase of investments		243,202
Purchase of 5.2% preferred shares for cancellation		139,249
Dividends on preferred shares	331,961	
Dividends on common shares	3,174,216	
Dividends paid to minority shareholders of subsidiary companies	318,172	
		3,824,349
		$38,952,834

Notes to Consolidated Financial Statements

Note 1 — Consolidation:

The consolidated financial statements include the accounts of the company and all its subsidiaries.

Plásticos y Troquelados Hurtado S.A., Mexico, of which 51% was acquired by Monterey Railway, Light and Power Company in November 1965 has been included in the consolidation for the first time.

La Electricidad de Colón C. A., which was incorporated in January 1966 and purchased the electric systems servicing the towns of Santa Bárbara and San Carlos in Venezuela, sold its assets to C. A. Energía Eléctrica de Venezuela during the year and the company was dissolved.

For comparative purposes the 1965 figures have been restated to reflect all accounts in United States dollars.

A summary of the net assets by location is as follows:

	Venezuela	El Salvador	Bolivia	Barbados	Mexico	Canada	Total
Property, plant and equipment (including intangibles of $2,813,865)	102,885,996	16,790,715	33,900,732	14,975,111	215,561	42,743	168,810,858
Investments and long term receivables	1,429,111	294,274	764,624	—	7,537,193	975,150	11,000,352
Current assets and deferred charges	7,162,834	2,192,217	4,828,021	1,173,912	1,286,060	14,656,822	31,299,866
	111,477,941	19,277,206	39,493,377	16,149,023	9,038,814	15,674,715	211,111,076
Current liabilities	15,715,340	2,047,146	1,572,278	2,638,585	368,540	1,038,271	23,380,160
Long term liabilities	3,076,748	478,349	3,416,215	324,719	—	—	7,296,031
Accumulated depreciation and other provisions	23,145,910	3,737,828	5,897,113	4,206,397	348,179	14,762	37,350,189
Minority Interest	1,695,100	1,539,279	219,945	1,731,252	1,160,734	76,854	6,423,164
	43,633,098	7,802,602	11,105,551	8,900,953	1,877,453	1,129,887	74,449,544
Net Assets	67,844,843	11,474,604	28,387,826	7,248,070	7,161,361	14,544,828	136,661,532

Note 2 — Foreign Exchange:

All the utility operations of the consolidated subsidiary companies of Canadian International Power Company Limited are in Latin America and Barbados. The following bases have been used in translating Canadian and other currencies to United States dollars:

Canada—

Current assets and liabilities at year-end rates of exchange; investments, fixed assets, accumulated depreciation and capital stock at the rates of exchange prevailing at the dates of acquisition of the assets or issue of capital stock. Capital stock issued and investments acquired prior to 1957 have been translated at par.

Venezuela—

The foreign currency accounts have been converted at the current rate of exchange at the end of each period with the following exceptions:

The fixed asset accounts of two Venezuelan companies have been valued on the basis of an appraisal at March 31, 1962 as stated in Note 3 and converted at the current rate of exchange as of that date. Fixed asset accounts of a subsidiary which was acquired in 1963 have been valued on the basis of an appraisal at December 31, 1965 and converted at the current rate of exchange as of that date. Subsequent additions thereto have been converted at the current rate of exchange at date of acquisition.

El Salvador, Bolivia, Mexico and Barbados—

The foreign currency accounts have been converted at the current rate of exchange at the end of each period. The fixed assets, accumulated depreciation and surplus accounts of Bolivian Power Company Limited and Monterey Railway, Light and Power Company are maintained in United States dollars.

Note 3 — Property, Plant and Equipment:

Venezuela—

As permitted by the Commercial Code of Venezuela and based on certified appraisals by Montreal Engineering Company Limited.

Properties in 1962 of two Venezuelan companies were increased by $18,346,217 and the accumulated provision for depreciation and renewals by $2,093,664 to state properties on an appraised basis of reproduction-cost-new as of March 31, 1962 and properties, in 1965, of a Venezuelan subsidiary which was acquired in 1963 were increased by $592,814 and the accumulated provision for depreciation and renewals by $232,487 to state properties on an appraised basis of reproduction-cost-new as of December 31, 1965. The resulting increases from these revaluations are reflected in appraisal surplus. Other subsequent additions are valued at cost.

Depreciation for the year was based on the cost values and depreciation rates as approved by the Venezuelan Income Tax authorities. Such rates continue after cost values have been fully depreciated to amortize the plant values represented by the revaluation adjustments. Management is of the opinion that the provision made is adequate on a service life basis.

Bolivia and El Salvador—

Properties of the Bolivian and El Salvador companies are valued at cost.

Barbados—

Based on a valuation in 1965 by International Middle West Service Company of Chicago, properties in December 1966 were increased by $5,266,348 and the accumulated provision for depreciation and renewals by $743,397 to state properties on an appraisal basis of reproduction-cost-new less observed depreciation. The resulting increase is reflected in appraisal surplus. The depreciation policy is to apply to the appraised values, on a straight line basis, rates that conform with electric utility depreciation practice.

Note 4 — Notes Receivable:

The notes receivable consist of:	1966	1965
Government of Mexico — 6½% promissory notes payable semi-anually to January 15, 1977, received in connection with the sale of physical properties	$6,574,625	$7,000,114
Fiveca, S.A. Caracas, Venezuela, 8% notes due in monthly instalments of $11,111	344,444	477,778
Hotel Ra-Monterrey, S.A. Monterrey, Mexico, 7¾% notes due from July 29, 1967 to July 29, 1973 subject to renewal conditions	250,000	75,000
	$7,169,069	$7,552,892

Note 5 — Long Term Accounts Receivable:

Accounts receivable of subsidiary companies, due from government bodies, for electric service, for which agreements have been made to collect such during the years 1968 to 1972.

Note 6 — Deferred Charges:

Included in deferred charges is a prepayment of $524,788 Government of Bolivia withholding tax applicable to future cash dividends of $2,623,940 from Bolivian Power Company Limited.

Note 7 — Long-Term Liabilities:

The long term liabilities consist of:	1966	1965
Bolivian Power Company Limited has arranged to borrow up to $5,000,000 from the International Development Association through the Bolivian Government to finance electric power expansion in the La Paz and Oruro Districts. The loan bears interest at 5½% per annum payable semi-annually and the principal is repayable over a period of twenty-five years from July 24, 1964; the repayments commenced July 29, 1966	$3,416,215	$1,852,144
International General Electric 6% notes payable in equal semi-annual instalments ending 1976	1,701,748	1,914,016
International General Electric 6% notes payable in equal semi-annual instalments ending 1970	91,757	114,696
Financiera de Desarrollo e Inversión 7% and 8% notes payable due 1970 and 1972	386,592	140,000
General Motors Corporation 5½% notes payable due in equal instalments from 1968 to 1976	324,719	—
Royal Bank of Canada 8% due 1968	1,375,000	—
	$7,296,031	$4,020,856

Term deposits totalling $2,750,000 have been hypothecated to provide collateral for the Royal Bank of Canada 8% loan which is due in equal instalments in 1967 and 1968.

Note 8 — Capital Stock:

Authorized:

	1966	1965
Preferred shares of the par value of Can. $20.00 each issuable in series of which 350,000 shares have been designated as 5.2% cumulative redeemable preferred shares, 1965 series	1,992,458	2,000,000
Cumulative redeemable 6% preferred shares, 1956 series, of the par value of Can. $50.00 each	—	420,498
Common shares of no par value	2,500,000	2,500,000

Issued and fully paid:	Number of shares issued and fully paid		Amount of capital stock outstanding	
	1966	1965	1966	1965
Preferred stock—				
5.2% Cumulative redeemable preferred shares, 1965 series	342,458		$ 6,378,031	
Cumulative redeemable 6% preferred shares, 1956 series	—	403,857	—	$20,192,850
Common stock—				
Shares of no par value	2,317,256	2,298,756	$17,577,518	$17,343,504

The authorized capital was by Supplementary Letters Patent:

a. increased during 1965 by 2,000,000 second preferred shares of the par value of Can. $20.00 each issuable in series of which 350,000 shares have been designated as 5.2% cumulative redeemable second preferred shares, 1965 series and

b. the above 2,000,000 second preferred shares were redesignated during 1966 by the deletion of the word "second".

c. reduced during 1966 by the cancellation of 420,498 preferred shares, 1956 series, of the par value of Can $50.00 each.

The balance of 403,857 of the issued and outstanding cumulative redeemable 6% preferred shares, 1956 series, were called for redemption and redeemed on January 5, 1966.

The company sold in 1966 to Royal Securities Corporation Limited under agreement dated November 29, 1965, 350,000 5.2% cumulative redeemable second preferred shares, 1965 series, of the par value of Can. $20.00 each for an aggregate price of Can. $7,000,000. On January 4, 1966 the company received the Can. $7,000,000, issued the said 350,000 preferred shares and paid a commission of Can. $1.50 per share (Can. $525,000) to Royal Securities Corporation Limited.

Provision is made for a mandatory 1% preferred stock purchase fund out of profits under conditions of the 5.2% cumulative redeemable preferred shares, 1965 series. In 1966, 7,542 shares of such preferred stock were purchased and cancelled.

Under a By-law sanctioned at a special general meeting of shareholders on June 26, 1957 which limits the aggregate number of shares to be covered by options thereunder to 100,000 shares and states that the option price shall not be less than 95% of the fair market value of the stock at the time the option is granted, options have been granted to senior executives as follows:

Granted				Exercised			
Date of grant	Expiry date	Number of shares	Option price per share	Year	Number of shares	Consideration	Outstanding at end of year
1957	April 7, 1967	30,500	Can. $14.25	1964	7,500	Can. $106,875	
				1965	10,500	149,625	—
				1966	12,500	178,125	
1963	April 10, 1973	12,000	Can. $12.35	1966	6,000	74,100	6,000

Note 9 — Surplus:

Adjustments arising upon consolidation are included in earned surplus.

Dividends which may be paid out of earnings of the subsidiary companies in Bolivia, El Salvador and Venezuela are subject to withholding taxes.

Note 10 — Directors' Remuneration:

Remuneration paid in 1966 to directors of Canadian International Power Company Limited by the company and its subsidiary companies, including salaries of those directors who were employees of the companies, was $123,657.

Note 11 — Contingent Liabilities:

The uncalled portions of capital stock in which a subsidiary company has invested funds amounted to $122,222 at December 31, 1966.

The Maracaibo Company is involved in a lawsuit which was instituted in the civil courts in Maracaibo on June 26, 1962 by C. A. Planificaciones Zulianas concerning the use of certain land for distribution lines in the District of Maracaibo. The plaintiffs are asking damages in the amount of $7,000,000. Counsel for the Maracaibo Company has advised that it is very unlikely that the plaintiffs will succeed in this litigation.

There are other claims for damages which management believes are without merit.

Subsidiary companies have been assessed for additional income taxes for the years 1962 to 1965 amounting to approximately $3,000,000. The companies and their legal tax counsels believe that they are not in accord with the laws and have appealed the assessments.

An actuarial valuation of the employees' pension plan of the management services subsidiary company has shown a deficiency of Can. $116,000 at December 31, 1965 which is being funded over 25 years in accordance with Quebec Pension Legislation.

Employees of subsidiary companies located in Venezuela, Bolivia and El Salvador, under the laws of the respective countries, are entitled to separation benefits when they leave the company. It is the practice of the companies to charge income only as they are paid.

Auditors' Report

To the Shareholders of
Canadian International Power Company Limited:

We have examined the consolidated balance sheet of Canadian International Power Company Limited and subsidiary companies as at December 31, 1966 and the consolidated statements of income and expenditure, surplus and the source and application of funds for the year then ended. Our examination of the financial statements of Canadian International Power Company Limited and those subsidiary companies of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiary companies.

In our opinion these financial statements present fairly the financial position of Canadian International Power Company Limited and its subsidiary companies as at December 31, 1966 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year with the exceptions as shown in Notes 1 and 3.

Price Waterhouse & Co.
Chartered Accountants.

April 3, 1967

Operating Companies Data

Operating Statistics	1957	1958	1959
Generating Capacity at December 31 (Installed Kilowatts):			
Hydro	58,250	66,250	66,250
Diesel	20,135	23,235	23,235
Steam	78,500	103,500	103,500
Gas Turbine	—	—	20,000
	156,885	192,985	212,985
Purchased Kilowatts (under contracts)	26,866	31,495	32,853
	183,751	224,480	245,838
Kilowatt-hours sold (thousands)	531,776	638,830	736,839
Operating Employees at December 31	1,348	1,600	1,584
Number of Electric Customers served at December 31	174,199	191,299	202,774

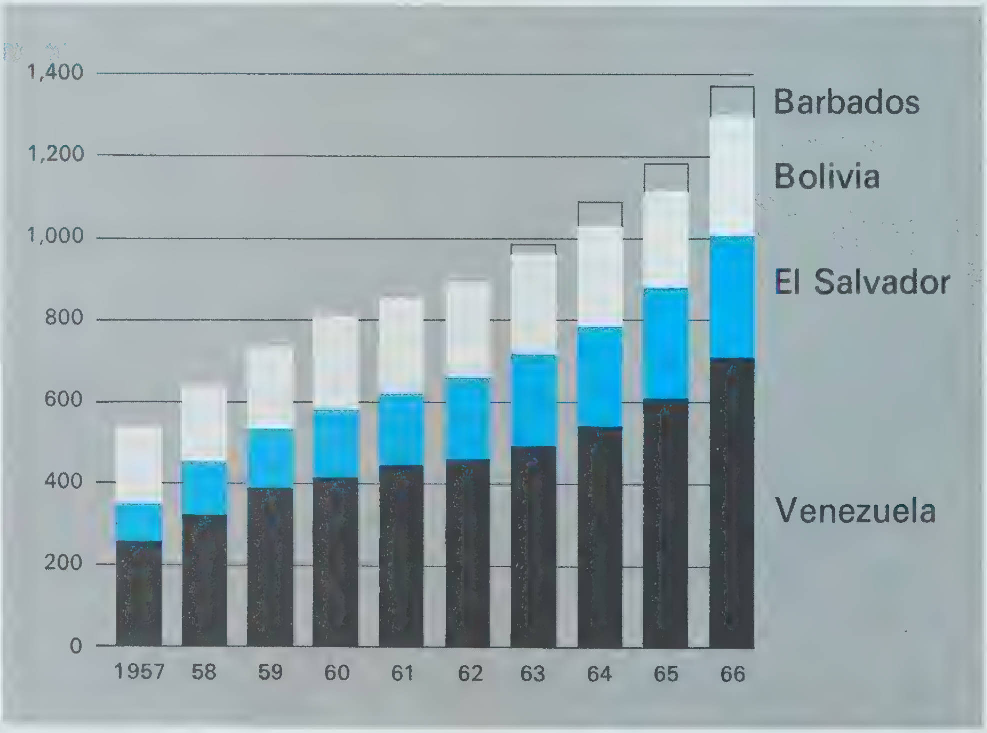
Financial Statistics (000's)			
Operating Revenue	$18,113	$21,328	$22,830
Operating Expenses and Taxes	8,469	10,723	11,570
Operating Income before Depreciation	9,644	10,605	11,260
Provision for Depreciation and Renewals	1,624	1,873	2,083
Capital and Replacement Expenditures for Property, Plant and Equipment	7,523	9,819	11,890
Fixed Capital Account — Property, Plant and Equipment at December 31	65,636	74,834	85,956

Note: 1957-1962 Combination of U.S. and Can. Dollars
1963-1966 U.S. Dollars and consolidation of Monterey and Oruro Subsidiary Companies.

Consolidated Operating Companies

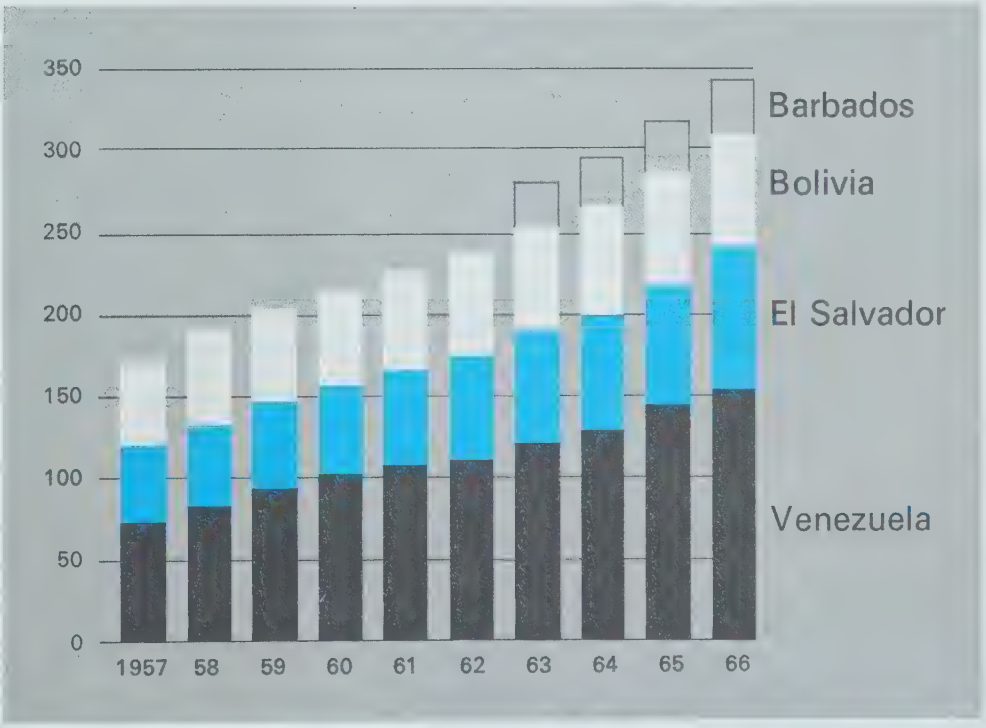
Electric Energy Sales

Millions of Kilowatt Hours



1960	1961	1962	1963	1964	1965	1966
66,250	66,250	66,250	66,250	66,250	66,250	92,735
23,235	23,235	29,115	43,682	49,200	58,903	58,307
169,500	169,500	169,500	174,500	174,500	174,500	240,500
20,000	20,000	20,000	20,000	20,000	33,200	47,600
278,985	278,985	284,865	304,432	309,950	332,853	439,142
35,613	39,442	44,875	48,346	52,785	62,490	66,725
314,598	318,427	329,740	352,778	362,735	395,343	505,867
808,456	855,066	899,910	988,928	1,085,382	1,177,509	1,361,225
1,556	1,456	1,367	1,770	1,828	1,940	1,995
217,082	228,153	238,524	281,198	294,484	317,580	342,628
$25,689	$25,730	$23,404	$25,363	$28,167	$31,358	$36,535
13,921	13,953	13,124	15,383	16,773	18,916	21,601
11,768	11,777	10,280	9,980	11,394	12,442	14,934
2,388	2,546	2,207	2,209	2,816	3,673	4,178
7,780	5,070	4,337	3,300	5,857	14,678	16,829
93,297	94,737	116,220	126,923	132,679	148,233	168,811

Electric Customers
at December 31
Thousands



Top: This canal, cut into the rock cliffs of Zongo Valley, brings water to power the newly completed Chururaqui Hydro Electric Plant.
Bottom: The plant, with an effective capability of 26,100 kilowatts, brings new dependability to the La Paz, Bolivia, electric system.

Construction of the second 14,400 kilowatt gas turbine in Barquisimeto, Venezuela, was completed in September, 1966, when the unit was connected to the rapidly growing system. Total generating capacity is now 57,318 kilowatts.

Photo by L. R. MacLean

Subsidiary Companies

Canada

International Power Company Limited
Hemisphere Management Services Limited

Barbados

The Barbados Light & Power Company Limited

Bolivia

Compañía Boliviana de Energía Eléctrica S.A. —
Bolivian Power Company Limited
Empresa de Luz y Fuerza Eléctrica de Oruro

El Salvador

Compañía de Alumbrado Eléctrico de San Salvador
Compañía Eléctrica de Oriente

Mexico

Monterey Railway, Light & Power Company
Compañía Territorial Mexi-Cana S.A.
Plásticos y Troquelados "Hurtado", S.A.

Venezuela

Empresas Eléctricas Venezolanas, Sociedad Anónima
C.A. Energía Eléctrica de Venezuela (Maracaibo)
La Electricidad de Perijá C.A.
C.A. Energía Eléctrica de Barquisimeto
C.A. Planta Eléctrica de Carora

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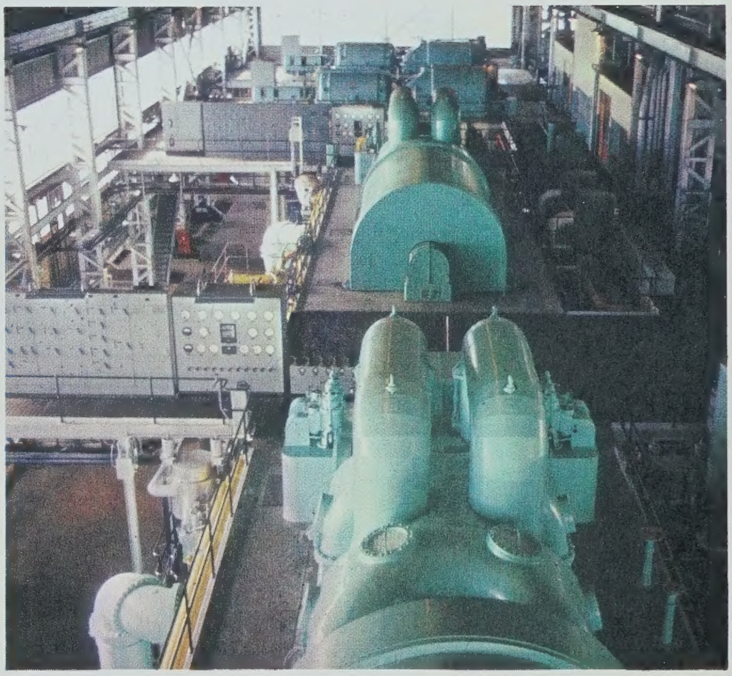
Photos by D. Evelyn



The photo on the left shows the boiler, with its 150-foot stack, of the latest 66,000-kilowatt steam electric generating unit, commissioned November, 1966, in Maracaibo. The turbo-generator and switchboard of this unit are seen above in the foreground. With the installation of this unit, the total generating capacity of the C.A. Energía Eléctrica de Venezuela has reached 258,809 kilowatts.

Under the rural electrification program of the El Salvador Companies, the advantage of modern living through the use of electricity has been brought to 63 new communities. Here a lineman climbs pole for final check of transmission lines.

expo67

1867 1967
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